

**STATE INVESTMENT COMMISSION
MINUTES
June 20, 2002**

The State Investment Commission meeting was called to order by T. Kevin Flanery, Secretary, Finance and Administration Cabinet at 2:00 p.m. on June 20, 2002 in Room 264 of the Capitol Annex. Other members present were Orson Oliver, Bank of Louisville; Brook Parker, proxy for Jonathan Miller, Treasurer; and James O. King, Peoples State Bank.

Secretary Flanery confirmed a quorum was present and that the press had been notified of the meeting.

At this time, Secretary Flanery introduced Jim King who was recently appointed to the State Investment Commission. Janet Rivers administered the Oath of Office to Mr. King.

Secretary Flanery asked if there were any corrections to the minutes. A motion was made by Mr. Oliver and seconded by Ms. Parker to accept the minutes of the March 27, 2002 meeting. Motion **Carried**.

Mr. Gordon L. Mullis, Executive Director, Office of Financial Management ("OFM"), presented the economic update. Mr. Mullis indicated that from a national perspective May retail sales were fairly dismal. The consumer index declined in June based on May receipts, however, June sales continue to rise. Wal-Mart is reporting stronger store-to-store sales growth than projected. Mr. Mullis indicated that the labor market is the key to the economy and it will continue to be the key until non-agricultural jobs are increased in significant numbers to increase personal income for tax collections and consumer spending. Mr. Mullis indicated that by the end of the calendar year it is expected that both personal income and consumer spending will experience sufficient growth to begin an upward turn in the economy. Another positive sign is the factory-order index is at its highest point in 15 years and inventory is down. Mr. Mullis indicated that mortgage rates remain low and continue to stabilize the economy as well.

Secretary Flanery introduced Resolution SIC-02-01:

**A RESOLUTION OF THE STATE INVESTMENT
COMMISSION OF THE COMMONWEALTH OF KENTUCKY
APPROVING BROKER/DEALERS FOR FISCAL YEAR 2003.**

Mr. Mullis informed the Commission that Resolution SIC-02-01 approves the firms that the Commonwealth is permitted to conduct business with. If the firms meet the criteria set forth in 200 KAR14: 011(9), they may be added to the list of approved firms. Mr. Mullis stated that Kirkpatrick Pettis and B B & T are being added to the list of non-

primary dealers. Both firms are being added to the list because they have a business nexus in Kentucky. Kirkpatrick Pettis is being added because they have an employee who has had a previous working relationship with the investment staff, providing valuable information, and Mr. Price expressed a desire to maintain the relationship. Staff recommended adoption of the Resolution.

A motion was made by Jim King and seconded by Brooke Parker to adopt Resolution 02-01. Mr. Oliver abstained from the vote. Resolution 02-01 was **ADOPTED**.

Secretary Flanery explained that Attachment C contains proposed changes to 200 KAR 14:022 Qualified Investments. He suggested that discussion would begin with Mr. Price on what the changes to the current regulations will accomplish.

Mr. Price indicated the CAMRA software utilized by staff to track the Commonwealth's financial activity has been updated. Mr. Price gave a brief history of the software for Mr. King's benefit. He indicated that the investment staff performs both the accounting and the investing functions for the Commonwealth. CAMRA is the accounting system. Staff will be adding BondEdge for its financial information. The investment section monitors the cash except for pension funds and fixed income on a daily basis. The cash is downloaded into CAMRA, split into the four portfolios, and is managed under the guidance of the proposed regulations.

Mr. Price continued that the current regulations have not been revised since 1997 and it was the opinion of staff that the regulations should be revised to allow staff to expand the yields realized on the Commonwealth's portfolio. Mr. Price indicated the one of the changes to be noted is in the maturity of the mortgage to less than 16 years. Another important change was the ability of staff to capture adjustable rate pass-throughs, also known as ARMS. The remaining changes to the regulations were of a housekeeping nature.

The Commission members indicated their desire for staff to continue with the process to revise the current regulations.

Mr. James King, the Commission's new member, presented his credentials to the Commission. Mr. King is a native of Louisville, KY. He is the president of King and Company, a CPA firm in Louisville. Mr. King bought a small bank in Nelson County in the early 1980s, Peoples State Bank. The bank currently has branches in Bloomfield and Louisville, KY with assets totalling approximately \$60 million. Mr. King is past president of the Community Bankers Association in Kentucky and currently is chairman-elect of the Kentucky Bankers Association.

Mr. Mullis informed the Commission members that the Office of Legal and Legislative Services has given approval for the purchase of BondEdge and a contract has been

signed. Installation of the software should begin within the week. The purchase of this software will allow staff to provide analytical data to the members.

Mr. Mullis informed the Commission that the transfer of custodial services to State Street Bank was smooth and staff is satisfied with the relationship. Mr. Mullis indicated approximately \$670 million will be moved through the system to pay off the TRAN on June 25, 2002 and this will definitely be a test of State Street's performance.

Mr. Tom Howard, Deputy Executive Director of the Office of Financial Management, discussed the TRAN. He explained that the Kentucky Asset/Liability Commission was formed in 1997 to develop policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and interest-sensitive liabilities. The Tax and Revenue Anticipation Note program borrows funds based on estimated cash flows and revenues. Mr. Howard indicated that past borrowings have been profitable; however, in the past year, the General Fund revenues dropped earlier and left a deficit for a longer period. He informed the Commission that the program would break even this year, but the cost of funding was still lower than if funds were borrowed from the investment pool.

Mr. Mullis gave a short overview of the Office of Financial Management and its function for Mr. King. He informed Mr. King that OFM is responsible for the issuance of debt for all debt issuing authorities and investment of the Commonwealth's available cash. He indicated that Mr. Price is the portfolio manager in charge of the investment staff and Mr. Howard is the deputy executive director for OFM in charge of the bonding programs.

Secretary Flanery asked if there was further business before the Commission. Being none, a motion was made by Mr. Oliver and seconded by Mr. King to adjourn the meeting.

Respectfully submitted,

Gordon L. Mullis, Secretary
State Investment Commission